

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AGR-20 COME-00 CIAE-00 INR-10

NSAE-00 RSC-01 AID-20 OPIC-12 L-03 H-03 SAM-01 STR-08

OMB-01 TRSE-00 EUR-25 EA-11 CIEP-02 SPC-03 PA-04

PRS-01 USIA-15 DRC-01 /169 W
----- 036977

P R 011200Z FEB 74

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC PRIORITY 3376

INFO AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L SECTION 1 OF 2 MANAGUA 0401

E. O. 11652: GDS

TAGS: EAGR ETRD NU

SUBJECT: CURRENT COTTON SITUATION

REF: MANAGUA 0215

SUMMARY: A CONFRONTATION BETWEEN NICARAGUAN COTTON GROWERS AND FOREIGN BROKERS APPEARS TO BE DEVELOPING OVER DELIVERY OF COTTON FUTURES CONTRACTS. BROKERS HAVE MADE SEVERAL UNSUCCESSFUL ATTEMPTS TO WORK OUT A SOLUTION, INCLUDING THE VISIT OF SEVERAL EXECUTIVES OF MAJOR U. S. FIRMS AND THEIR ATTORNEYS TO MANAGUA JANUARY 24-26. DURING VISIT BROKERS APPEARED VERY CLOSE TO AGREEMENT ON SUBSTANCE OF SETTLEMENT BUT FAILED TO REACH ACCORD ON FORM OF SETTLEMENT. AS SITUATION NOW STANDS, BROKERS THREATENING TO TAKE ACTION TO RESTRICT TRADING IN NICARAGUAN COTTON IN THE NEAR FUTURE. END SUMMARY.

1. A CONFRONTATION BETWEEN NICARAGUAN COTTON GROWERS AND FOREIGN BROKERS APPEARS TO BE DEVELOPING. THE 1973/74

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COTTON HARVEST IS WELL UNDERWAY BUT THUS FAR, DELIVERIES

ON FUTURES CONTRACTS HAVE BEEN MINIMAL (LESS THAN 2 PERCENT OF TOTAL CONTRACTS). GROWERS ARE HOLDING THEIR COTTON OFF THE MARKET IN AN ATTEMPT TO FORCE BROKERS TO ADJUST CONTRACTS TO REFLECT THE INCREASES IN WORLD PRICES.

2. BROKERS HAVE MADE SEVERAL UNSUCCESSFUL ATTEMPTS TO WORK OUT A SOLUTION. IN LATE DECEMBER, A GROUP OF U. S. BROKERS OFFERED TO SETTLE CONTRACTS ALONG THE LINES OF THE "MEXICAN AGREEMENT" WHICH WOULD HAVE FREED ROUGHLY 20 PERCENT OF CONTRACTED COTTON FOR SALE AT SPOT PRICES. THAT EFFORT FELL APART IN EARLY JANUARY WHEN A JAPANESE BROKERAGE FIRM, A EUROPEAN FIRM, AND PERHAPS SEVERAL U. S. FIRMS, OFFERED TO FREE 30 PERCENT OF THE DELIVERIES CONTRACTED.

3. EXECUTIVES OF MAJOR U. S. AND EUROPEAN BROKERAGE FIRMS ACTIVE IN NICARAGUA VISITED MANAGUA JANUARY 24-26, ACCOMPANIED BY THEIR ATTORNEYS, ARMISTEAD I. SSELLEN, JR., OF WASHINGTON, AND VICTOR FRIEDMAN OF NEW YORK. THE GROUP MET SUCCESSIVELY WITH THE AMBASSADOR; GENERAL SOMOZA; GENERAL JUAN JOSE RODRIQUEZ SOMOZA (SECRETARY OF THE NATIONAL COTTON COMMISSION); AND HAD A 5 HOUR MEETING WITH A GROUP OF 15-20 OF THE LARGEST COTTON GROWERS. THE BROKERS INDICATED TO THE AMBASSADOR AND GENERAL SOMOZA THAT THEY WERE SEEKING AN AMICABLE SETTLEMENT WHICH WOULD GET COTTON MOVING AND AVOID POSSIBLE DISRUPTION OF MARKETS FOR NICARAGUAN COTTON, DELAYS IN SHIPPING, AND POTENTIAL LOSSES FROM "COUNTRY DAMAGE" DUE TO LACK OF STORAGE FACILITIES FOR THE RECORD HARVEST. THEY RECOGNIZED THAT EARLIER LACK OF UNITY AMONG THEMSELVES HAD TORPEDOED THEIR PREVIOUS OFFER OF 20 PERCENT. THEY EXPRESSED CONCERN AT REPORTS THAT NEWLY FORMED TRADING COMPANIES WERE ATTEMPTING TO BRING "THEIR" COTTON TO MARKET AT CURRENT PRICES. THEY TOLD GENERAL SOMOZA THEY SOUGHT AN ARRANGEMENT WHICH WOULD BE FAIR TO BOTH SIDES AND GUARANTEE SUBSTANTIAL DELIVERIES OF EXISTING CONTRACTS. BECAUSE OF THEIR CONTRACTUAL OBLIGATIONS WITH THE JAPANESE END-USERS THEY COULD NOT OFFER SPECIFIC TERMS FOR SUCH A SETTLEMENT. HOWEVER, AS IN THE CASE OF MEXICO, THEY MIGHT BE ABLE TO ACCEPT A SOLUTION "IMPOSED" ON THEM AND

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THE PRODUCERS BY AN OUTSIDE AUTHORITY, SUCH AS THE GON, OR THE COTTON COMMISSION.

4. GENERAL SOMOZA, REMINDING THE BROKERS OF HIS PREVIOUS STATEMENTS THAT THE GON WOULD NOT INTERVENE DIRECTLY, TOOK THE POSITION THAT THE CONTRACTS MUST BE SETTLED BY THE PRIVATE PARTIES INVOLVED. HE SAID THAT NICARAGUA IS STRONGLY COMMITTED TO THE FREE ENTERPRISE SYSTEM AND

CONSISTENTLY FOLLOWS A POLICY OF NON-INTERVENTION IN FOREIGN
TRADE TRANSACTIONS. THE GON, THEREFORE, COULD NOT
DICTATE THE TERMS OF A SETTLEMENT, ESPECIALLY IN AN
ELECTION YEAR. NONETHELESS, HE RECOGNIZED THE PROBLEMS
THE SITUATION COULD CAUSE THE COUNTRY AND THE ECONOMY.
HE SUGGESTED THAT BROKERS AND GROWERS "LOCK THEMSELVES
IN A ROOM" AND HAMMER OUT A SOLUTION. HE CALLED IN THE
SECRETARY OF THE NATIONAL COTTON COMMISSION, GENERAL
RODRIGUEZ, TO GIVE HIM AND THE BROKERS A RUNDOWN ON THE
SITUATION AS HE SAW IT.
SHELTON

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5. SHORTLY AFTER RODRIGUEZ ARRIVED, SOMOZA LEFT
THE MEETING. RODRIGUEZ INDICATED HIS PERSONAL OPINION
THAT THE LARGEST GROWERS WOULD AGREE TO A DEAL WHICH
FREED 30 PERCENT OF THEIR FUTURES CONTRACTS AND THAT
SMALLER GROWERS WOULD FOLLOW THEM. THE BROKERS ASKED
IF RODRIGUEZ COULD OFFICIALLY RECOMMEND SUCH A SOLUTION
WHICH WOULD BE BINDING ON GROWERS. RODRIGUEZ SAID HE
COULD NOT. AFTER FURTHER DISCUSSION, RODRIGUEZ CONCEDED
THAT THE COTTON COMMISSION MIGHT BE ABLE TO ISSUE A STATEMENT

URGING A SOLUTION ON BOTH BROKERS AND GROWERS. GENERAL SOMOZA RETURNED TO THE MEETING AND AGREED THAT RODRIGUEZ AND THE BROKERS SHOULD ATTEMPT TO WORK OUT THE WORDING OF A STATEMENT TO BE MADE BY THE COTTON COMMISSION WHICH WOULD BE ACCEPTABLE TO BOTH SIDES. THE MEETING ENDED.

6. ATTORNEY FRIEDMAN LATER PREPARED A DRAFT STATEMENT IN WHICH THE COTTON COMMISSION WOULD "STRONGLY RECOMMEND" SETTLEMENT ON A 70/30 SPLIT. RODRIGUEZ GAVE TENTATIVE APPROVAL AND SAID HE WOULD CHECK IT WITH HIS BOARD OF
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DIRECTORS. LATER THAT DAY, THE BROKERS MET WITH 15-20 LARGE GROWERS PLUS RODRIGUEZ AND, AFTER 5 HOURS OF NEGOTIATIONS, BOTH SIDES INDICATED THEY COULD LIVE WITH A 70/30 SPLIT.

7. THE FOLLOWING DAY RODRIGUEZ RETURNED TO THE BROKERS WITH A REDRAFT OF THE STATEMENT WHICH WAS UNACCEPTABLE TO THEM BECAUSE IT STATED THEY HAD "AGREED" OR "OFFERED" A 70/30 SPLIT. RODRIGUEZ THEN COMPOSED A THIRD DRAFT, SIMILAR TO THE FRIEDMAN DRAFT, WHICH THE BROKERS ACCEPTED AND ON WHICH THEY FELT THEY HAD RODRIGUEZ'S COMMITMENT. THEY LEFT NICARAGUA EXPECTING RODRIGUEZ TO ISSUE THE STATEMENT AS A COMMUNIQUE. ON JANUARY 28, RODRIGUEZ PRESENTED THE BROKERS' LOCAL AGENTS WITH A NEW PROPOSED COMMUNIQUE WHICH CONTAINED SEVERAL OF THE OBJECTIONABLE FEATURES OF HIS EARLIER DRAFT. AFTER CONSULTATION WITH THEIR HOME OFFICES, THE BROKERS REJECTED IT. THE COTTON COMMISSION THEN TRIED ANOTHER DRAFT, WHICH DROPPED MOST OF THE OBJECTIONABLE FEATURES OF THE EARLIER ONE BUT WHICH DID NOT SPECIFICALLY RECOMMEND THE SETTLEMENT TERMS. THIS WAS REJECTED BY THE BROKERS JANUARY 30, AND THEY INFORMED THE COTTON COMMISSION THAT UNLESS IT ISSUES A COMMUNIQUE ALONG THE LINES THEY THOUGHT THEY HAD AGREED TO EARLIER WITHIN 48 HOURS, THEY WILL TAKE ACTION IN TRADE CIRCLES TO RESTRICT TRADING IN NICARAGUAN COTTON.

8. COMMENT: AT THIS POINT THERE APPEARS TO BE A CONSENSUS ON THE SUBSTANCE OF THE SETTLEMENT BUT SHARP DISAGREEMENT ON THE FORM. BROKERS HAVE CLEARLY INDICATED THEY NEED A STATEMENT FROM AN OFFICIAL GOVERNMENT AGENCY WHICH WILL PERMIT THEM TO PLEASE "FORCE MAJEURE" WITH THEIR ULTIMATE CUSTOMERS. THE GOVERNMENT IS EQUALLY DETERMINED NOT TO ASSUME RESPONSIBILITY FOR CAUSING THE "FORCE MAJEURE." THE EMBASSY BELIEVES EACH SIDE CLEARLY UNDERSTANDS THE OTHER'S POSITION, BUT WE SEE NO SIGNS OF GIVE ON EITHER SIDE. GENERAL SOMOZA HAS DESCRIBED THE SITUATION AS "A GAME OF TAG IN WHICH NO ONE IS WILLING TO BE IT."

SHELTON

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Message Attributes

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